NEW ENGLAND POWER COMPANY
AMENDMENT TO SERVICE AGREEMENT WITH
MASSACHUSETTS ELECTRIC COMPANY UNDER
FERC ELECTRIC TARIFF, ORIGINAL VOLUME NO. 1
FORMULA FOR CALCULATING CONTRACT
TERMINATION CHARGES

1.1 The Fixed Component of the Contract Termination Charge shall include Mass. Electric's 72.6 percent allocated share of NEP's costs as shown on Schedule 1, Page 2, which shall include:

1.1.1 Revenues sufficient to amortize over a twelve year period commencing on January 1, 1998 and continuing through December 31, 2009 the following plant balances and regulatory assets:

(a) Plant balances shall include the unrecovered net book value as shown on Schedule 1, Page 5, Column (7), of the following NEP generation-related investments as of January 1, 1998,[1] excluding any capital additions made after December 31, 1995:

(i) Brayton Point Units 1, 2, 3, 4, including the Brayton Point Diesels; Salem Harbor Units 1, 2, 3, 4; Wyman Unit 4;
(ii) Manchester Street Station, including NEP's reimbursement to Narragansett for its ownership share of the Station at Narragansett's net book value, prepaid property tax payments made in accordance with a tax treaty with the City of Providence, and capital additions past December 31, 1995 but committed prior to that date;
(iii) NEP Hydro Units;
(iv) Bear Swamp Pumped Storage Facility;
(v) NEP's Entitlements in the Maine Yankee and Vermont Yankee Units;
(vi) NEP's ownership share of Millstone Unit 3;
(vii) NEP's ownership share of Seabrook Unit 1;
(viii) Step-up transformers at NEP generating units which are excluded from NEP's transmission rates;
(ix) General plant allocated to generation;
(x) Generation-related property held for future use and non-utility property;

[1] The figures shown on Schedule 1, Page 5, Column (7) are estimates and will be updated for actual balances as of December 31, 1997. Changes, if any, shall be reconciled at the Divestiture Date.

(xi) Generation-related investment in the Nantucket Diesels; and
(xii) Generation-related investment in the NEP Diesels at Gloucester and Newburyport.

The plant balances for NEP's entitlements and ownership shares in nuclear units (items v, vi, and vii, above) shall also include the balances for the final fuel cores and materials and supplies; and

(b) Regulatory assets shall include the generation-related unrecovered net book balances shown in Schedule 1, Page 6, Column (2), as of December 31, 1997[2/]:
(i) FAS 109;
(ii) Unamortized losses on Reacquired Debt;
(iii) Unamortized pipeline demand charges deferred prior to the commercial operation of Manchester Street;
(iv) NEEI;
(v) Unamortized power contract buyout costs;
(vi) Rate clauses;
(vii) Seabrook tax true-up;
(viii) Decontamination and decommissioning costs;
(ix) Unamortized ITC; and
(x) W-95 Settlement Adjustment Account to the extent not otherwise recovered.

1.1.2 Revenues sufficient to provide an overall pre-tax return of 11.18 percent[3/] based on a combined state and federal income tax rate of 39.225 percent, and NEP's 1995 year-end capital structure as shown in Schedule 1, Page 15, Column (6), including a return on common equity of 9.4 percent,[4/] multiplied by the average of the beginning and ending

[2/]The figures shown on Schedule 1, page 6, Column 2 are estimates and will be updated for actual balances as of December 31, 1997. In addition, the balance in the W-95 Settlement Adjustment Account will be updated again at the Contract Termination Date if the W-95(S) rate has not been superseded at that time. Changes, if any, shall be reconciled at the Divestiture Date.

[3/]The 11.18 percent shall be used as the return wherever a return is referenced throughout this Appendix. However, the return so calculated shall be adjusted in accordance with Section 1.1.4(e).

[4/]The common equity return of 9.4 percent will also be applied to NEP's equity investment in the Ocean State Power facility for purposes of calculating Contract Termination Charges under the Amendment. In addition for purposes of the Contract Termination balances in each calendar year beginning in the year of the Contract Termination Date, of the sum of the following:

(a) Unrecovered net book value of NEP's generation investments as defined under 1.1.1(a) above, plus

(b) Unrecovered net book value of generation-related Regulatory Assets as defined under 1.1.1(b) above, excluding the rate clauses and unamortized ITC under 1.1.1(b)(vi) and (ix), less

(c) Deferred Taxes as shown in Schedule 1, Page 14, Column (9), equal to the combined state and federal income tax rate of 39.225 percent, which shall be adjusted for changes in tax laws, multiplied by the sum of:

(i) the unrecovered net book value of NEP's generation investment, plus

(ii) the unrecovered net book value of generation-related regulatory assets, excluding rate clauses, less

(iii) the unrecovered balance of generation investment for tax purposes, less

(iv) the unrecovered balance of generation-related regulatory assets for tax purposes.

1.1.3 Revenues sufficient to: (i) amortize over a twelve year period commencing on January 1, 1998 and continuing through December 31, 2009 the generation-related, unrecovered net book balances associated with the FAS 106 Transition Obligation of NEP and allocated to NEP by its affiliates[5/]; and (ii) pay a return of 7.25 percent equal to the interest rate reflected in the actuarial analysis of the FAS 106 Transition Obligation of NEP and allocated to NEP by affiliates multiplied by the outstanding balances remaining for the FAS 106 Transition Obligation of NEP and allocated to NEP by affiliates. Following the date on which NEP divests its

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Charges, NEP's investments in the Yankee Companies are set at a 9.4 percent equity return.

[5/] Any FAS 106 Transition Obligation of NEP and allocated to NEP by its affiliates that is not allocated to generating facilities shall be deemed transmission related.

non-nuclear generating facilities ("Divestiture Date"),[6/] these outstanding balances shall be subject to a one time adjustment as set forth in Section 1.1.4(b) below. At the same time, the interest rate return for the period after the Divestiture Date shall be established using the most current actuarial analysis available at the time, which rate shall remain in place for the remainder of the fixed cost recovery period.

1.1.4 The Fixed Components shall be subject only to the following adjustments:

(a) For each month that the Contract Termination Date is delayed beyond January 1, 1998, NEP shall adjust the Reconciliation Account in the Variable Component of the Contract Termination Charge by an amount equal to the difference between the depreciation and amortization expense authorized under the W-95(S) rate or a superseding wholesale rate, if any, and the depreciation and amortization under Section 1.1.1, multiplied by Mass. Electric's 72.6 percent allocated share. An exhibit showing the difference between depreciation and amortization under the W-95(S) rate and the Contract Termination Charge is included in Schedule 2.

(b)Following the Divestiture Date and at the time of implementing the Residual Value Credit, NEP shall reconcile the balances in Sections 1.1.1 and 1.1.3 for Mass. Electric's 72.6 percent allocated share of (i) the unrecognized transition obligation, prior service cost, and unrecognized gains or losses associated with the FAS 106 obligation; and (ii) the unrecognized transition obligation, prior service cost, and unrecognized gains or losses

[6/]If NEP sells its non-nuclear generating facilities in more than one transaction, the rights and obligations associated with the divestiture shall be allocated among the transactions using appropriate allocators. The FAS 106 transition obligation and adjustments shall be allocated based on the ratio of direct payroll costs at each generating facility sold to total direct payroll costs at all of NEP's non-fossil generating facilities.

associated with the FAS 87 obligation, but the gains or losses associated with FAS 87 shall be recognized only to the extent that they exceed five percent of the greater of plan assets or liabilities. NEP shall fund the FAS 106 and FAS 87 obligations under this Section and Section 1.2.3(f) as rapidly as permitted by the tax law up to the level of revenues collected for this purpose.[7/] Any revenues associated with these obligations that cannot be immediately funded shall be put into a separate account on the books to be reserved with the return specified in Section 1.1.3 until tax deductible funding becomes possible. The one-time adjustment associated with FAS 106 and FAS 87, whether positive or negative, shall be subtracted from or added to the schedules for prospective recovery of FAS 106, as appropriate, and amortized with the return specified in Section 1.1.3 over the period between the sale and December 31, 2009. An exhibit showing the reconciliations is included in Schedule 3, page 1. In addition, NEP shall reconcile the balances for Mass. Electric's 72.6 percent allocated share of (iii) the FAS 109 regulatory asset; and (iv) the general plant allocated to generation, provided, however, that any general plant not allocated to generation shall be functionalized to transmission. The one-time adjustment associated with differences in the balances for FAS 109 and general plant, whether positive or negative, shall be subtracted from or added to the net proceeds reflected in the residual value credit as

[7/] The FAS 106 and FAS 87 costs recovered through the Contract Termination Charge shall be reflected as a credit to NEP's transmission rates. NEP's post-divestiture FAS 106 or FAS 87 gains or losses recognized on NEP's books shall be fully reflected in rates to customers and shall neither be retained nor borne by NEP. NEP shall propose an allocation of these post-divestiture gains or losses between customers paying Contract Termination Charges and transmission customers to recognize the higher cash contributions of the customers paying the Contract Termination Charges in the filing implementing the Residual Value Credit.

appropriate and shall be amortized, with the return specified in Section 1.1.2, over the period between the sale and December 31, 2009.

(c)Upon the sale of NEEI properties, NEP shall reconcile NEEI recovery to reflect the difference between the actual NEEI loss following the sale and the estimated NEEI loss reflected in the Contract Termination Charge. The reconciliation shall credit to Mass. Electric, Mass. Electric's 72.6 percent allocated share of the compounded return that NEP accrued on the NEEI unamortized balance through the Contract Termination Charge prior to the sale of the NEEI properties, and shall account for and reconcile all differences between: (i) actual amortization under NEP's Tariff No. 1 fuel clause as compared to the amortization estimates included in the Contract Termination Charge and Schedule 2 if the Retail Access Date is delayed; (ii) actual balances on NEEI's books at the sale as compared to balances used to calculate the Base Contract Termination Charge; and (iii) actual net proceeds after transaction costs realized from the sale as compared to those used to estimate market value when calculating the Base Contract Termination Charge. Following the completion of the above reconciliations, Mass. Electric's 72.6 percent allocated share of the differences in the balances, whether positive or negative, shall be subtracted from or added to the Mass. Electric's 72.6 percent allocated share of the balance for NEEI losses and the schedule for prospective recovery of NEEI costs shall be adjusted to amortize, with the return specified in Section 1.1.2, the adjusted balance over the period between the sale and December 31, 2009. An exhibit showing the methodology for the NEEI reconciliation is attached as Schedule 3, page 2. If the Contract

Termination Date has not yet occurred at the time the NEEI properties are sold, the same schedule of recovery shall be applied to NEP's Tariff No. 1 fuel clause to Mass. Electric so that NEP fully recovers the revised NEEI recovery from Mass. Electric.

(d) NEP has agreed to divest its generating business within six months after the later of the Retail Access Date or the receipt of all governmental approvals and other consents necessary for the divestiture. Within three months after the completion of divestiture or the sale of any property,[8/] the cost of which is included in the Contract Termination Charge, NEP shall implement a Residual Value Credit as a direct offset to the Contract Termination Charges authorized under this Amendment. The Residual Value Credit to Mass. Electric shall be calculated as follows:

(i)Mass. Electric's 72.6 percent allocated share of Total Proceeds[9/] equal to the sale price and other consideration received by NEP excluding $85 million[10/] which purchasers will be required to pay into an account for employee benefits pursuant to Section 1.2.3(f), less

(ii)The revenues lost or gained by NEP between the Retail Access Date and the Divestiture Date[11/] measured by the difference between the

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[8/]Proceeds, if any, from NEP's future leases of nuclear entitlements will also be flowed through the Residual Value Credit.

[9/]As part of the terms of the Divestiture, NEP shall require the buyer of the facility to pay NEP the net book value for all inventories and materials and supplies associated with the generating facility. As a result, inventories and materials and supplies for NEP's non-nuclear facilities are excluded from the plant balances under Section 1.1.1, and shall be excluded from the calculation of the Residual Value Credit. In addition, the Buyer may assume other obligations that are included in the variable component of the Contract Termination Charge. NEP reserves its right to revise the variable cost estimates and the amortization of fixed cost components in Schedule 1 to reflect the assignment of obligations to the purchasers, if such revision is necessary to maintain a stable and declining pattern of Contract Termination Charges as offset by the Residual Value Credit.

[10/]The $85 million represents total costs of $91 million less $6 million of FAS 106 transition obligation which is being recovered under Section 1.1.3.

[11/]If NEP sells its non-nuclear generating facilities in more than one transaction, the revenues lost shall be allocated based on the revenues, excluding revenues attributable to items included in the Contract Termination Charge or in NEP's transmission rates, that NEP would have collected under Rate W-95(S) or a superseding wholesale rate, if any, had it continued to make the sales to Mass. Electric under Tariff 1 and the revenues, excluding transmission revenues and Contract Termination Charge revenues, that it actually collected from sales to Mass. Electric's customers during the period, together with a credit for Mass. Electric's share of the revenue from sales at no less than market prices made by NEP to third parties during the period, provided, however, the lost revenues so calculated shall not exceed \$0.008 per kilowatthour multiplied by the number of kilowatthours delivered by Mass. Electric during the period between the Retail Access Date and the Divestiture Date. If the Divestiture Date occurs after January 1, 1999, NEP shall provide a report to the Commission and the Signatories setting forth the reasons for the delay, and demonstrating its reasonableness, less

(iii) Mass. Electric's 72.6 percent allocated share of capital investments demonstrated to be prudently incurred after December 31, 1995, excluded from the plant balances in Section 1.1.1 (a) above,[12/] less

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kilowatthours generated by the unit sold to total kilowatthours generated from NEP's non-nuclear generating facilities during the period between the Retail Access Date and The Divestiture Date.

[12/] NEP's capital investments shall include construction work in progress. The investments in non-nuclear generating facilities in 1996 are shown in Schedule 4. These projects have been reviewed by the parties and are included as an offset to the Residual Value Credit subject only to a further review for the reasonableness of the amounts expended in the construction of the projects under Section 3.5 of the Agreement. NEP may include additional projects, if any, at the time of the calculation of the Residual Value Credit, subject to the dispute resolution procedures under Section 3.5 of the Agreement.

(iv) Mass. Electric's 72.6 percent allocated share of reasonable transaction costs associated with the divestiture including the cost of refinancings, repurchases, and retirements of securities occurring after March 20, 1997.

The Net Proceeds from the divestiture including amortization and the pretax return specified in Section 1.1.2 on the unreturned credit balance net of tax impacts shall be credited to the Fixed Component in equal annual amounts over the period commencing on the date the Residual Value Credit is implemented through December 31, 2009. The Residual Value Credit shall be implemented even if: (i) the Divestiture Date occurs before the Retail Access Date, in which event Mass. Electric shall implement the Wholesale Access Date in accordance with Section 6.1.1, n. 3 of the Agreement, or (ii) the Residual Value Credit exceeds the Contract Termination Charge in any given year. If the sale of assets, whose costs have been included in the Contract Termination Charge, occurs after December 31, 2009, NEP shall implement a Residual Value Credit following that date to amortize the proceeds, with the return specified above, over no more than five years.

(e)Effective with refinancings, repurchases, and retirements of securities on and after March 20, 1997, NEP shall, for all purposes associated with the implementation of the Contract Termination Charge or the Residual Value Credit, flow through the Residual Value Credit the annual effects associated with any differences between NEP's 11.18 percent overall pre-tax return and the actual pre-tax return, calculated using a 9.4 percent return on common equity, attributable to changes in the cost of debt, preferred stock, capital structure or income tax rates, provided that the overall pre-tax return shall not exceed 11.18 percent so long as the yield on 10-year Treasury constant maturities as reported in the Federal Reserve Statistical Release is 9 percent or lower. In the event that the yield on Treasury maturities as so reported exceeds 9 percent, the 11.18 percent overall pre-tax return shall be adjusted to include NEP's actual cost of debt and preferred stock using a 9.4 percent return on common equity. This reconciliation will apply to the period following the Divestiture Date whether or not securitization has been implemented. Notwithstanding the foregoing, nothing shall require a change in capital structure prior to any financing to take advantage of securitization.

NEP shall not be required to implement securitization unless implementation would produce net savings after taking into account all transaction costs including call provisions and prepayments, if applicable.

Any and all financing savings associated with refinancing following divestiture or securitization shall be allocated to the Contract Termination Charge through this paragraph, and shall not be reflected in NEP's capital structure used for transmission rates. To the extent any financing savings are allocated to transmission rates by the Commission, however, they shall not also be allocated to the Contract Termination Charge under this paragraph.

1.2 The Variable Component of the Contract Termination Charge shall include Mass. Electric's allocated share of the items specified in Section 1.2.3, below adjusted for the Reconciliation Account discussed in Sections 1.2.1 and 1.2.2, below.

1.2.1 The Variable Component shall be adjusted through a Reconciliation Adjustment in which differences, whether positive or negative, between the estimates for Contract Termination

Charge Payments by Mass. Electric and Mass. Electric's allocated share of the estimated variable costs listed in Section 1.2.3 below and actual Contract Termination Charge payments by Mass. Electric and its allocated share of the actual variable costs will be accumulated in a Reconciliation Account and added to or subtracted from the Contract Termination Charge from NEP to Mass. Electric. The Reconciliation Account shall also include the adjustment if any under Section 1.1.4(a) above, caused by a deferral in the Contract Termination Date. A pretax return equal to that specified in Section 1.1.2 shall be included on any balance in the Reconciliation Account, whether positive or negative. The Reconciliation Account shall accumulate through December 31, 2000, and shall be used to adjust NEP's Base Contract Termination Charges to Mass. Electric on January 1, 2001. Thus, effective January 1, 2001, NEP shall return or collect Mass. Electric's allocated share of any outstanding balance in the Reconciliation Account by implementing an adjustment to the Base Contract Termination Charges to Mass. Electric. Thereafter, the balance including the accumulated return in the Reconciliation Account at the end of a year shall be used to adjust NEP's Base Contract Termination Charges for the following year. Reconciliation Account adjustments to the Contract Termination Charges shall not cause the Contract Termination Charges to exceed 2.8 cents per kilowatthour. Any deferrals caused by the limitation in the prior sentence shall be carried forward with a return into the next annual adjustment to the Base Contract Termination Charge. Any Reconciliation Account adjustments occurring prior to January 1, 2001 that would otherwise cause the Contract Termination Charge to increase or decrease by more than 0.2 cent per kilowatthour shall be amortized with a return over the three years following January 1, 2001.

1.2.2 Through December 31, 2009, the Reconciliation Account shall also include a Termination Charge Mitigation Incentive which shall increase the Variable Cost

Component when NEP mitigates the Contract Termination Charge and reduces the cumulative average of the cents per kilowatthour Contract Termination Charge to Mass. Electric below 2.8 cents per kilowatthour. The schedule of rewards for each level of the cumulative average Contract Termination Charge in each year from 2001 through 2009 is shown on Schedule 1, page 4.

1.2.3 Mass. Electric's 72.6 percent allocated share of the specific cost items included in the Variable Component are set forth in Schedule 1 at page 3. The difference between Mass. Electric's 72.6 percent allocated share of the actual variable costs incurred by NEP and the estimated variable costs in this section shall be included in the Reconciliation Account. The costs included in the Variable Component shall include the following:

(a) Nuclear Decommissioning and Other Post Shutdown Costs shown in Schedule 1, Pages 7 and 8, shall include: (i) all charges, excluding any net incremental decommissioning costs caused by operations after the Retail Access Date, for decommissioning and site restoration assessed to NEP by the operators of each nuclear electric generating facility specified in Section 1.1.1(a) (v), (vi) and (vii) above, subject to the regulatory authority of the agencies having jurisdiction over the operation and collection of such funds, (ii) all other reasonable post shutdown costs associated with NEP's entitlements in the units listed in Section 1.1.1(a)(v), (vi) and (vii) above; and (iii) all remaining reasonable costs, including decommissioning costs and unrecovered capital costs, associated with Yankee Rowe and Connecticut Yankee shown on Schedule 1, page 8. Funding for the decommissioning costs will be placed in irrevocable trusts in accordance with NRC regulations. If, upon the completion of decommissioning for any of the above listed nuclear generating facilities, it is determined that there has been an over collection of funds, such over collection will be transferred to NEP's decommissioning fund for either Millstone 3 or Seabrook 1 pending final disposition of their decommissioning. Once all decommissioning is complete, any over collection will be refunded to Mass. Electric in the Reconciliation Adjustment. Other post shutdown costs will also be fully reconciled in the Reconciliation Adjustment.

(b) Above Market Payments to Power Suppliers will be (i) all payments by NEP for Long-Term Power Supply Contracts less the market value realized from the resale of electricity purchased under the contracts into the wholesale market, plus (ii) Economic Buyout Payments associated with those contracts, less (iii) Credit for Unit Sales Contracts.

(i) Long-Term Power Supply Contracts will be all power supply contracts in place as of December 31, 1995, between NEP and a third party supplier, continuing to the termination date of each contract. The Long-Term Supply Contracts include:

(1) Ocean State Power
(2) Canal
(3) NU Slice
(4) Lawrence Hydro
(5) Mascoma Hydro
(6) Pontook Hydro
(7) Northeast Landfill
(8) Turnkey
(9) Ogden Haverhill
(10) RESCO Saugus
(11) RESCO N. Andover
(12) Signal - Millbury
(13) Hydro MWRA
(14) RFA Lawrence
(15) ALTRESCO
(16) Clark University
(17) Milford Power
(18) Pawtucket
(19) Barre Landfill

(20) Nashua Landfill
(21) Hydro Quebec

(ii) Economic Buyout Payments will be all reasonable payments agreed to by NEP after April 1, 1997, associated with the sale, assignment, disposition, or buy down of the Long-Term Power Supply Contracts. Economic Buyout Payments shall be recovered as incurred to the extent that current recovery does not increase rates to customers above the level that would have been incurred absent the sale, assignment, disposition, or buy down of the Long-Term Power Supply Contract. The portion of the Economic Buyout Payment that cannot be recovered currently under the prior sentence shall be deferred and recovered with the return specified in Section 1.1.2 as soon as such recovery will not increase rates to customers above the level that would have been incurred absent the sale, assignment, disposition, or buy down of the Long-Term Power Supply Contract. If the Contract Termination Date has not yet occurred at the time that an Economic Buyout Payment is made, the schedule of recovery set forth in the prior two sentences shall be applied to NEP's Tariff No. 1 fuel clause to Mass. Electric so that NEP fully recovers Mass. Electric's allocated share of the Economic Buyout Payment from Mass. Electric.

(iii) Credit for Unit Sales Contracts will be all unit sales contracts entered into by NEP as of December 31, 1995, for sales from the following generating units if they are not otherwise subject to market valuation less the market value of these contracts as shown in Schedule 1, Page 3, Columns (7) through (9). Units Sales Contracts include contracts for NEP's sale of power from the following units:

(1) Ocean State Power
(2) Maine Yankee
(3) Millstone 3
(4) Seabrook I

(c) Above Market Fuel Transportation as shown in Schedule 1, Page 12, will be the sum of NEP's continuing long-term payment obligations associated with (i) Capacity Payments to Interstate Natural Gas Pipelines less the market value of that capacity, and (ii) Coal Ship Obligations less the Market Value associated with those obligations (see Schedule 1, page 12).

(i) Capacity Payments to Interstate Natural Gas Pipelines will be all capacity payments for Interstate Pipeline Capacity Contracts in effect as of December 31, 1995. They include:

(1) NOVA
(2) TCPL
(3) Iroquois
(4) Tennessee
(5) Algonquin
(6) ANR
(7) Columbia
(8) Distrigas
(9) Providence Gas
(10) Brayton Point Lateral

The Market Value of Capacity Payments to Interstate Natural Gas Pipelines will equal the actual proceeds associated with the sale or assignment or termination of contractual obligations. For the purposes of calculating the Base Contract Termination Charges prior to the date that NEP's contractual entitlements to the pipeline capacity are assigned to a nonaffiliate, the Market Value of Capacity Payments to

Interstate Natural Gas Pipelines shall be deemed to equal the amounts shown on page 12 of Schedule 1, which are 50 percent of such capacity payments.

(ii)Coal Ship Obligations will be all payments by NEP under its charter with the Energy Enterprise until the contract is otherwise terminated or assigned. The market value of these Coal Ship Obligations will equal the actual proceeds associated with the assignment or termination of the charter with the Energy Enterprise, and are assumed to be zero for the purpose of calculating the Base Contract Termination Charges and the estimate included in the Reconciliation Account. See Schedule 1, page 12.

(d) Transmission wheeling charges as shown in Schedule 1, Page 3, associated with the transmission of electricity from NEP's entitlements in Connecticut Yankee, Maine Yankee, Millstone Unit 3, Wyman Unit 4, Vermont Yankee, and NEP's purchase from a slice of Northeast Utilities system, which units are located off of NEP's transmission system, together with support payments to Central Maine Power and Connecticut Light and Power which are necessary for the transmission of NEP's remote generation. These wheeling and support payments shall include only costs that are excluded from recovery under NEP's and NEPOOL's open access transmission tariffs or are not assigned to a purchaser of the unit.

(e) Payments in Lieu of Property Taxes will include all reasonable costs incurred by NEP or its affiliates associated with payments in lieu of property taxes to the cities and towns in which NEP owns generating facilities to mitigate the loss of tax revenues that those cities and towns would otherwise incur in connection with restructuring. For the purposes of calculating the Base Contract Termination

Charges and the estimate included in the Reconciling Account, the Payments in Lieu of Property Taxes are assumed to be zero.

(f) Employee Severance and Retraining as shown in Schedule 1, page 3, Column (13), will include all reasonable costs and expenses incurred by NEP or its affiliates associated with the adjustment of their workforces in connection with the implementation of retail access, divestiture, or the termination of NEP's Tariff No 1, including, but not limited to early retirement, severance, retraining and other reasonable costs associated with the implementation of the benefits to employees included in Schedule 5. NEP shall require purchasers of its generating business to pay $85 million for the costs under this paragraph incurred by NEP and its affiliates. In the event that the actual costs incurred by NEP and its affiliates under this paragraph are less than $85 million, excluding costs found by the Commission to be recoverable in NEP's transmission rates, NEP shall flow back the difference to customers in the Reconciliation Account. The procedure established in this paragraph shall be the exclusive method for recovering the costs under this paragraph, and, except in the event of legislation changing required benefits, neither NEP nor its affiliates shall be able to recover more than $85 million for these costs. Thus, for the purposes of calculating the Base Contract Termination Charges and the estimate included in the Reconciliation Account, the Employee Severance and Retraining Costs are assumed to be zero and, except in the event of legislation changing required benefits, these costs shall not result in an increase to the Reconciliation Account or to the Contract Termination Charge.

(g) Damages, Costs, or Net Recoveries from claims by or against third parties shall include all damages, costs, or recoveries associated with NEP's generating business which accrued prior to the date of divestiture and which were not: (i) included in the reserves for generation related, uninsured claims other than claims associated with Environmental Response Costs as of January 1, 1995, plus annual additions to the reserves for uninsured claims in NEP's W-95(S) rate, less actual payments out of the reserve for generation related claims during the period from January 1, 1995 through the Contract Termination Date; (ii) assigned to NEP's successor in interest; (iii) recovered from NEP's insurance carriers; (iv) the result of gross negligence. For the purposes of calculating the Base Contract Termination Charges and the estimate included in the Reconciliation Account, Damages, Costs, or Net Recoveries from claims were assumed to be zero.

(h) Performance Based Rate for Nuclear Units Remaining After Divestiture shall credit value received that is not otherwise reflected in the Residual Value Credit, or recover any payments or costs associated with the sale, lease or disposal of nuclear units or entitlements that are not otherwise reflected in the Residual Value Credit. If NEP is unable to sell, lease, assign, or otherwise dispose of its nuclear units or entitlements on the terms set forth in the Agreement prior to the Contract Termination Date, the Performance Based Rate shall include 80 percent of the reasonable going forward costs, including variable costs and capital additions, on a cost of service basis[13/] associated with NEP's nuclear units or entitlements that are not otherwise recovered in contract termination charges less 80 percent of the revenues from sales of energy or capacity from such units or entitlements that are not otherwise reflected in contract termination charges. The Performance Based Rate shall apply for the period from the Contract Termination Date to the date

[13/] In the event that the nuclear unit is retired before the end of its license life, the capital addition shall be amortized with a return over the remainder of the license or in accordance with its depreciation schedule, whichever is shorter.

that NEP either sells, leases, assigns or otherwise disposes of the nuclear unit or entitlement of the nuclear unit is shutdown. Within six months prior to implementing the Performance Based Rate, NEP will consult with the Signatories on a performance standard for nuclear safety indicators and will file such performance standard with a maximum potential credit for nonperformance of $1 million. Such sales, if any, shall only be made in the wholesale market to nonaffiliates provided, however, that NEP shall retain the right to use its minority shares of the units or entitlements to fulfill its minimum, zero bid obligations under the standard offer. For the purpose of calculating the Base Contract Termination Charges and the estimate included in the Reconciliation Account, the Performance Based Rate for Nuclear Units is assumed to be zero.

(i) Environmental Response Costs defined as:

(i)Reasonable and prudently incurred costs associated with the investigation, testing, remediation, liabilities, damages, claims, settlements, or judgments attributable to or incurred by NEP or Narragansett relating to deposits or waste from divested generating facilities off the site of properties sold, whether or not such material is regulated under the statutes and authorities referenced in paragraph (iv), including material deposited before the Divestiture Date at disposal sites, sites to which material may have migrated from off-site disposal sites, or any off-site location at which generation related material may have been deposited before the Divestiture Date associated with the operation of generating facilities sold pursuant to the divestiture plan;

(ii)Reasonable and prudently incurred costs associated with the investigation, testing, remediation, liabilities, damages, claims, settlements, or judgments attributable to or incurred by NEP or Narragansett relating to deposits and wastes occurring prior to the Divestiture Date whether or not such material is regulated under the statutes and authorities referenced in paragraph (iv) from facilities located either within the switchyards for which NEP will retain a permanent easement on parcels that are otherwise being divested or the Brayton Point step-up transformers if such costs are not recovered in transmission rates;

(iii)Reasonable and prudently incurred costs associated with the purchase of property that is acquired as part of an overall mitigation and response plan associated with sites identified in paragraphs (i) and (ii);

(iv)The statutes and authorities referenced in paragraphs (i) and (ii) shall be the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), Resource Conservation and Recovery Act (RCRA), Massachusetts G.L. c. 21C and 21E, and Rhode Island General Laws 23-19.14, or any other laws, regulations or orders by courts or governmental authorities, or resulting from claims and contentions arising in tort, breach of contract or violation of law;

(v)Except for property acquired under paragraph (iii), Environmental Response Costs shall not include costs associated with the investigation, testing, remediation, or other liabilities relating to property acquired after the Divestiture Date. Environmental Response Costs recovered under paragraphs (i), (ii), and (iii) shall also be offset by: (i) reserves related to Environmental Response Costs as of January 1, 1995, less actual payments out of the Reserve for Environmental Response Costs during the period from January 1, 1995 through the Contract Termination Date; (ii) proceeds from insurance companies related to Environmental Response Costs; (iii) proceeds from the sale of properties purchased under paragraph (iii); and (iv) recoveries from third parties;

(vi)Nothing herein is intended to limit, alter, or otherwise affect any liability of NEP to governmental authorities or third parties other than the buyer or buyers of NEP generating facilities under any environmental law including those referenced in paragraph (iv).